Investment Fraud

Investment and securities (or stock market) fraud  encompasses a variety of illicit activities and strategies, which generally  include the deception of investors or the misrepresentation by capital market participants.

* Ponzi/Pyramid schemes
* Insider Trading
* Illegal Distribution
* Registrant misconduct
* Market Manipulation

**Ponzi Schemes**  
This type of scheme is named after Charles Ponzi who became notorious for using the technique in early 1920. A Ponzi scheme is an investment fraud that promises high financial returns or dividends that are not available through traditional investments. Unknown to the investors, returns are paid from their own money or money paid by subsequent investors rather than from profit. This provides an appearance of legitimacy.

In a Ponzi scheme, there is no legitimate investment. The scheme generally falls apart when either the operator flees with all of the proceeds, a sufficient number of new investors cannot be found to allow the continued payment of the promised returns, or the scheme is discovered by authorities.

Two recent Ponzi schemes include the Earl Jones case in Montreal and Bernard Madoff in the USA.

Another form of a Ponzi scheme is a called a Pyramid or Multi-Level Marketing Scheme. In this scheme, participants earn money not by the sale of any product but by recruiting new participants to pay money to join the program.

**Insider Trading**  
Most laws allow individuals to lawfully trade in the securities of the corporations with which they are considered an insider. Unlawful insider trading though occurs when privileged, non-public, material information is used to buy or sell a security.

Tipping refers to an insider disclosing privileged, non-public, material information to someone else (ie. a family member, friend or other 3rd party). The person receiving this information is then considered an insider.

A recent case of unlawful insider trading in Canada saw Stanko Grmovsek plead guilty and was sentenced to 39 months in prison in early 2010. Also, several years ago in the United States, Martha Stewart was found guilty of insider trading and served time in prison.

**Illegal Distribution**  
A sale of securities to investors that does not comply with securities law trading and disclosure requirements.

A prospectus is a document that describes the investment and the associated risks to the investor. Registration with regulators is required of anyone in the business of advising or trading in securities, unless certain exemptions are provided.

In cases of illegal distribution, investors are often promised guaranteed or unrealistic returns on an investment. Illegal distributions of securities sometimes involve Ponzi schemes. These fraudulent schemes pay returns to initial investors from funds provided by subsequent investors. The schemes eventually collapse because there is usually no underlying asset and the perpetrator is ultimately unable to make payments to investors.

llegal distributions can also involve affinity fraud, a common type of investment scam that targets members of identifiable groups, such as religious or ethnic communities, the elderly, or professional groups. The fraudsters who promote affinity scams frequently are – or pretend to be – members of the group, whereby they exploit the trust and friendship that exist in a shared community.”

**Registrant misconduct (including brokers and investment advisors)**  
Any person or company in the business of advising or trading in securities in Canada must be registered under the securities laws of each Canadian jurisdiction in which they conduct this activity, unless an exemption is provided in legislation or by order from the securities regulators. Misconduct by registrants occurs when a registered person or company violates securities laws. It is also misconduct to fail to register when required to do so, or to fail to adhere to the conditions of a registration exemption.

**Market Manipulation**  
Market manipulation involves efforts to artificially increase or decrease a company’s share price. Examples of market manipulation include pump and dump schemes, high closing activities and volume manipulation.

**Other Types of Fraud:**

* Affinity Fraud
* Boiler Rooms
* Pump and Dump
* Exempt Securities Scams
* Forex Scam
* Investment seminar scam
* Offshore investment scam
* Retirement account scam
* Spam e-mail

For more information on how to protect yourself, [visit the Canadian Securities Administration Act](http://www.securities-administrators.ca/investortools.aspx?id=88).

One of the most recent events in investment fraud that was publicised highly was that of Bernie Madoff. Bernard Lawrence “Bernie” Madoff is an incarcerated American former stock broker, investment advisor, non-executive chairman of the NASDAQ stock market, and the admitted operator of what has been described as the largest Ponzi scheme in history.

In March 2009, Madoff pleaded guilty to 11 federal crimes and admitted to turning his wealth management business into a massive Ponzi scheme that defrauded thousands of investors of billions of dollars. Madoff said he began the Ponzi scheme in the early 1990s. However, federal investigators believe the fraud began as early as the 1980s, and that the investment operation may never have been legitimate.The amount missing from client accounts, including fabricated gains, was almost $65 billion. The court-appointed trustee estimated actual losses to investors of $18 billion. On June 29, 2009, he was sentenced to 150 years in prison, the maximum allowed.

The Madoff Hustle Part 1 - <https://youtu.be/-M3sHrVOddw>

The Madoff Hustle Part 2 - <https://youtu.be/QpjFIb0g6vE>

The Madoff Hustle Part 3 - <https://youtu.be/xVRysd1Ohvg>

The Madoff Hustle Part 4 - <https://youtu.be/sjNV66Yr0fk>